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THE SENATE OF CANADA

Proceedings of the

STANDING COMMITTEE ON

CANADIAN TRADE RELATIONS

in respect to the inquiry into what, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty.

No. 5

WEDNESDAY, JUNE 23, 1954

The Honourable A. N. McLEAN, Chairman

WITNESS

Mr. A. de V. Leigh, M.B.E., Secretary, London Chamber of Commerce.

REPORT OF THE COMMITTEE

APPENDIX B
Submission by the Agricultural Institute of Canada.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1954.

CANADIAN TRADE RELATIONS

The Honourable A. N. McLean, Chairman

The Honourable Senators

Baird	Duffus	MacKinnon
Bishop	Euler	McDonald
Blais	Fraser	McKeen
Buchanan	Gouin	McLean
Burchill	*Haig	Nicol
Campbell	Hawkins	Paterson
Crerar	Howard	Petten
Daigle	Kinley	Pirie
Davies	Lambert	Turgeon
Dessureault	*Macdonald	Vaillancourt—(28)

ex officio member.
35 Members.

(Quorum 7)

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of the Senate, Tuesday, February 23, 1954:—

"That the Standing Committee on Canadian Trade Relations be empowered to enquire into and report on—

1. What, in their opinion, might be the most practical steps to further implement Article 2 of the North Atlantic Treaty whereby the signatories to that document agreed that—"They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them".

2. That notwithstanding the generality of the foregoing, the Committee be instructed and empowered to consider and report upon how, in their opinion,

(*a*) any project for developing economic collaboration, specifically between the countries who are signatories to the North Atlantic Treaty, can be co-ordinated with the trade policies of other countries of the free world;

(*b*) any project for developing economic collaboration between the countries which are signatories of the North Atlantic Treaty, might have the same degree of permanence that is contemplated in the twenty year Military obligation under Article 5 of the Treaty whereby "The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all".

3. That the Committee be empowered to extend an invitation to those wishing to be heard, including representatives of agriculture, industry, labour, trade, finance and consumers, to present their views, and that the Committee also be empowered to hear representations from business interests or individuals from any of the NATO countries who might wish to be heard.

4. That the Committee be empowered to send for persons, papers, and records, and to secure such services as may be necessary for the purpose of the enquiry."

L. C. MOYER,
Clerk of the Senate.

91969—1½

MINUTES OF PROCEEDINGS

WEDNESDAY, June 23, 1954.

Pursuant to adjournment and notice the Standing Committee on Canadian Trade Relations met this day at 10.00 a.m.

Present: The Honourable Senators—McLean, Chairman, Bishop, Burchill, Crerar, Gouin, Haig, Hawkins, Howard, Kinley, Lambert, Macdonald MacKinnon, Petten and Turgeon.—(14).

In attendance: The official reporters of the Senate.

Consideration of the order of reference of February 23, 1954, was resumed.

Mr. A. de V. Leigh, M.B.E., Secretary, London (England) Chamber of Commerce, was heard.

At 11.00 a.m. the Committee adjourned.

At 4.00 p.m. the Committee resumed.

Present: The Honourable Senators—McLean, Chairman, Burchill, Crerar, Daigle, Dessureault, Gouin, Haig, Hawkins, Howard, Kinley, Lambert, Masdonald, MacKinnon, Petten, Turgeon and Vaillancourt.—(16).

Mr. A. de V. Leigh was further heard and questioned.

A submission by the Agricultural Institute of Canada was ordered to be printed as Appendix B to these proceedings.

A draft Report, read by the Chairman, was considered.

On motion of the Honourable Senator Turgeon, the said Report was adopted. (See page 130).

Consideration of the order of reference was concluded.

At 5.15 p.m. the Committee adjourned to the call of the Chairman.

ATTEST.

John A. Hinds,
Assistant Chief Clerk of Committees.

MINUTES OF EVIDENCE

THE SENATE

OTTAWA, Wednesday, June 23, 1954.

The Standing Committee on Canadian Trade Relations, which was empowered to inquire into and report upon the development of trade between countries signatory to the North Atlantic Treaty, and with other countries of the free world, met this day at 10 a.m.

Hon. Mr. McLean in the Chair.

The CHAIRMAN: Honourable senators, the meeting is called to order. As we are now all familiar with the resolution with which this committee is charged and which is based on Articles II and V of the North Atlantic Treaty, I do not believe it will be necessary to repeat it.

We are honoured this morning to have with us Mr. A. de V. Leigh, M.B.E., Secretary of the London (England) Chamber of Commerce, which is one of the largest organizations of its kind in the world. Mr. Leigh has been Secretary of this great organization for over thirty years, and has been in close touch with all parts of the British Empire and with other nations of the free world, especially with those which belong to NATO. He is regarded as one of the top authorities in Europe on international trade and economics as he is extremely well informed on these matters.

Mr. Leigh has come a long distance and has made considerable sacrifice to be with us here today, and we are certainly thankful for the great interest he has taken in the work of our committee. His last visit to Canada was to attend the Empire Trade Conference called by Prime Minister Bennett in 1932.

I shall now call upon Mr. Leigh to present his brief, at the conclusion of which there will be the usual question period, when each senator can, in turn, ask Mr. Leigh to enlarge upon and clarify any points which he may wish to have brought out.

Mr. A. de V. LEIGH, M.B.E., (Secretary of the London (England) Chamber of Commerce): Honourable senators, the London Chamber of Commerce were greatly honoured by receiving your invitation to submit evidence to this committee, and I myself feel, indeed, highly honoured to be here to present those views.

Honorable sénateurs, malheureusement je ne parle pas français assez bien pour vous adresser la parole dans cette langue, et je vous demanderais d'être bien indulgent en cette instance.

I will, if I may, read the memorandum which is in front of you, and might I suggest that you should mark any points as we go along and come back to them when I have finished, as there are questions that may be answered later on in the brief itself.

THE LONDON CHAMBER OF COMMERCE (INC.)
69 Cannon Street, London E.C.4

Memorandum of evidence for submission to the Standing Committee on Canadian Trade Relations of the Canadian Senate

PART I

The London Chamber of Commerce has 13,000 direct members with another 50,000 represented on its Council through 45 affiliated associations. A very high percentage of its direct members are engaged in overseas trade. That applies not only to the merchants of whom there are some 6,000 but also to the manufacturers of whom there are about the same number. In fact, the manufacturers belong to the Chamber primarily on account of the help it can give them in their overseas trade. The Chamber also houses and staffs the National General Export Merchants' Group, the members of which are solely engaged in the export trade.

Prior to 1914, the main risk which an exporter took was that his buyer abroad might prove to be dishonest or incapable of paying. That a buyer might be both honest and solvent, and yet that the exporter here might not receive payment, because a foreign country had no foreign currency and put an embargo on payments, was so remote a risk as to be relatively negligible. But after the first world war suspensions of payment by Governments became a serious risk; and since the second world war a major one.

It will be seen therefore that the question of international payments is of consequence to those engaged in the export trade. It is not a matter of academic interest to them, but vitally affects their daily transactions.

Realizing this trend the Chamber set up a Special Committee on International Payments as long ago as 1931 and, from time to time since then, this subject has again been reviewed by the Chamber, and the broad conclusions reached some 23 years ago have on more than one occasion been reaffirmed.

It will be appreciated that those engaged in international commerce cannot be satisfied with anything less than the establishment of a system of multilateral payments covering the whole world: only when such a system is established and functioning can goods and services move freely from country to country. This was possible prior to the first world war and to a less extent during some of the inter-war years, but has not been possible during the eight years which have followed the second world war.

To remove the Money Curtain which effectively divides the dollar area and the rest of the free world is, in this Chamber's submission, the major economic problem of to-day, beside which all other economic problems sink into relative insignificance.

It seems to be tacitly assumed that the only way in which this highly desirable objective can be realized is to restore the nineteenth century technique, under which national currencies were freely bought and sold for what they would fetch on the international exchange market. In this Chamber's view the old technique is out-of-date and cannot be restored and therefore if the objective of freer trading is ever to be reached, new techniques must be found in harmony with twentieth century conditions. It appears to this Chamber to be entirely unrealistic to advocate the restoration of a system which has been completely outmoded by the immense revolutions which have taken place in the methods of production and distribution; in the sphere of politics; in the social sciences and, more particularly, in the organization of labour.

It was recognized by this Chamber some 23 years ago that many of the factors which had made the nineteenth century system of international payments work, had either disappeared or had become greatly modified; and it is evident that the second world war completed what the first world war had begun. It may therefore be well to consider what those factors were.

The United Kingdom up to the outbreak of the first world war was the World Creditor. Being unable to grow enough food for her people she was obliged to import very large quantities annually, as well as practically all her raw materials with the exception of coal. The system of international payments which she evolved was based upon these quite exceptional and peculiar circumstances. The Industrial Revolution had taken place in England at the end of the eighteenth century. She was the workshop of the world throughout the nineteenth century, and not until the beginning of the twentieth century did any rival appear. The nineteenth century system of International Payments which in its simplest terms was a system of international free trade in national currencies, i.e. convertibility, could only be made to work if each nation, of the one part, and the rest of the world, of the other, could, by one means or another, be kept in approximate equilibrium. This the United Kingdom made it its business, as World Creditor, to enable every nation to do. The chamber wishes to emphasize that it is not attributing any special virtue to the United Kingdom in this respect. It was a system which suited the special circumstances of the United Kingdom and of the rest of the world at that time. The United Kingdom had no cause to fear competition with its domestic manufactures by imports of manufactured goods, since the other nations, by and large, only had foodstuffs and raw materials to offer. Under a system of free trade, then, the United Kingdom received annually imports of foodstuffs and raw materials which were double the value of her exports of manufactured goods. Half of these imports were payment for her exports, and the other half were in payment of interest on the loans which she had made, and for shipping and banking services, etc.—the invisibles. Her willingness to accept imports to double the value of her exports was the first provision made by the United Kingdom as World Creditor to enable the other nations of the world to maintain their balance of payments. The second provision was that if a nation had a bad harvest and for that or other reasons was unable to pay with its exports for its imports plus interest on its loans, it came into the London Market for another loan. It has been estimated that the United Kingdom lent £100 millions a year for some 60 years, i.e. some £6,000 millions by simple addition. At compound interest this sum would have been astronomical. On the outbreak of war in 1914 the market value of the United Kingdom's foreign investments was some £4,000 millions—not even the original £6,000 millions: the rest, for the most part, had been repudiated.

The truth of the matter is that a relatively high rate of interest was paid on these foreign bonds, so that by the time they began to fall on the Stock Exchange, the first holder who sold and took a loss felt he had not done too badly. The next man, in his turn, took his rate for two or three years and sold again at a loss, so that as a rule the loss, by the time the bond was finally repudiated, was spread over a very large and wealthy investing class. They felt that they had known the bond was speculative, otherwise there would not have been a high rate of interest, and that they had just been unlucky. The United Kingdom did in fact give away an immense amount of real wealth to the world through making loans on which the debtors defaulted.

It will be appreciated that if a borrower in a foreign country failed to pay interest and amortization to the United Kingdom this was not due to any obstacle being put in his way by the United Kingdom. The latter was ready and willing to accept an excess of imports over exports. Whilst defaults on

a substantial scale did take place, as indicated above, many borrowers overseas paid their interest regularly and ultimately repaid the capital. Had this not been the case the private investors in the United Kingdom would not have been willing to lend their money abroad.

Now it is quite obvious that if the present World Creditor, the United States, is going to insist on an excess of visible exports over imports every year, that system cannot work.

The first provision set out above for enabling each nation to maintain approximate equilibrium, namely, that the World Creditor should be prepared to receive an excess of imports over exports, is reversed, and the United States, by having a large excess of exports over imports, is itself the unbalancing factor. It necessarily follows that if the United States has a favourable balance annually with the rest of the world, the rest of the world must have an unfavourable balance with the United States: that is merely the other side of the same balance sheet. Nor can the second provision mentioned above come into operation under these circumstances. The world would be unable to earn enough dollars to pay the United States for her current exports, much less for interest on loans and for other invisibles as well: it is therefore unlikely that potential investors in the creditor nation would be prepared to make loans. In short, the nineteenth century technique cannot possibly work in the second half of the twentieth century under the totally different circumstances of the New World Creditor and the changed conditions in the world at large.

It may now be well to review some of the other factors present before the first world war which have since either disappeared or become greatly modified, and which played an important part in the functioning of the nineteenth century technique.

The Cunliffe Committee on Currency and Foreign Exchanges, in its first Interim Report issued in August, 1918, and the Macmillan Committee on Finance and Industry which presented its Report in June, 1931, both described the orthodox theory of bank rate. The effect of a high bank rate on the internal situation was to curtail credit, to diminish enterprise and cause unemployment, and then that unemployment would tend to bring down wages so that costs of production generally would fall.

When it was decided in 1921 to make the pound "look the dollar in the eye" this was the policy which was pursued. The result, however, was not, as in pre-war days, to enforce a general reduction in wages, through unemployment, so strengthening the competitive position of this country internationally: instead, it set up a complex of internal stresses and strains which, amongst other things, led to the General Strike of 1926.

The growth in the power of organized labour, and the political and psychological consequences of the prolonged and severe unemployment, not only in this country, but throughout the world, which followed the crisis of 1929/1931, have made it quite certain that no government in any of the Free Nations will to-day deliberately bring about unemployment on the grand scale in order to force down wages.

Nor would this old technique prove acceptable to industry and commerce. Mass production implies mass consumption. The overheads in modern industry can only be met, and a profit made, when goods are being turned out at a high percentage of capacity.

Further, it was generally true before the first world war that the reason why a nation was out of balance was that is internal prices were too high in relation to world prices; and that if its products were cheap enough they would find a ready sale in the world's markets.

That the nations nowadays are not prepared to accept imports merely because they are cheap was fully demonstrated between the wars, when many

nations took special measures to keep out Japanese goods because they were too cheap and so threatened their own domestic industries. Moreover, as has been said elsewhere, the problem of maintaining full employment is now a dominant preoccupation with all governments.

It is admittedly extremely difficult to adjust one's mind to the vast changes in the political, social and economic life of the world which have taken place since the first world war, and to abandon long held and once true theories and beliefs. If, however, we are to be realistic—and at this crucial turning point in the world's history it is essential that we should be—it is necessary to recognize, and to admit, that nations will no longer take imports merely because they are cheap. It is useless to say that nations should do so; that they would be richer if they would; the fact remains, in the world as it is, the nations don't and won't. It may be true—but if true it is irrelevant—that a country which excels, e.g., in the production of dairy produce and wool should concentrate on those productions and should export them, buying in return the manufactured goods it needs, and that by this international division of labour the world's wealth would increase. In practice, however, rather than see those of their sons and daughters migrate who are not content to be dairy farmers, the people of that dairying country will prefer to pay more for possibly inferior but locally produced good if, by so doing, they can keep their children and their grandchildren round them and, through sacrifice, build up a well-balanced economy.

The first world war gave a great stimulus to industrialization in all countries since, for the first time, they experienced the discomfort and hardship of being cut off from their overseas sources of supply. They also became acutely aware of the defenceless position of a nation which, having no industry of its own, was entirely dependent on imports even for rifles and ammunition. Thus industrialization has become a political matter, apart from purely economic considerations.

Between the wars, so long as loans from the United States enabled the economically weak nations to balance their accounts with the world, international convertibility of currencies was somewhat precariously maintained, but with the withdrawal of American loans from Europe in 1931, Germany, Austria, Italy, Turkey, Spain, Hungary, Bulgaria, Yugoslavia, Roumania, Czechoslovakia, Greece, Denmark, Latvia, Estonia and Portugal (the last two named confined it to capital transactions from 1933-34 onwards), joined in 1936 by Poland, adopted exchange control for the rest of the inter-war period. Whilst the United Kingdom itself was forced to abandon the gold standard in 1931 the pound sterling remained convertible into gold and other currencies throughout the whole period betwen the two world wars but only at the expense of widely fluctuating exchange rates. Several South American Republics also adopted exchange control in 1931-32, and after a period of relaxation, intensified it in 1937. There can be no doubt that so long as the debtor nations had been able to find a ready buyer of their exportable surpluses and, in times of difficulty, obtain a loan on the London Market to tide them over, they had not appreciated the weakness of their position but, in the inter-war years, thrown back upon their own resources, fear gave an immense stimulus to the desire for self-sufficiency. If they imported goods there was no guarantee that they would be allowed to pay for those goods with their exports. Instead, the money which they had paid for their imports might be used to buy not their exportable goods but their existing fixed assets—their land, their industries, their newspapers, hotels, cinemas, etc. This was a prospect which no country wishing to maintain its economic, and therefore

political independence, could contemplate with equanimity. This further peril then was met by Bilateral Trade Agreements, Barter Deals for the exchange of goods against goods, quotas, etc.

The fear of having their existing fixed assets bought by foreigners was also a potent factor in encouraging nationalization as the one sure means of ensuring that industries did not fall under foreign control. Since the second world war the fears which are here described are still potent. All the nations are busily engaged in trying to build up, through industrialization, a balanced economy with the maximum possible degree of self-sufficiency as their objective. To attempt to force them to abandon their protective mechanisms, exchange controls, quotas and the rest, will merely convert fear into panic. Only by removing the very real perils against which these mechanisms are their defence can that fear be eliminated and humanity saved from the colossal economic waste which economic nationalism, carried to its logical conclusion, would represent. Violent gusts of wind merely cause a man to wrap his coat more tightly round him, but he will himself remove it when he feels the heat of the sun.

Under the existing conditions the United States each year earns an immense quantity of foreign currencies which she does not wish to use for the purpose of buying imports in return. So long as the countries in which that money is legal tender maintain exchange controls, the American owners of it cannot offer it for sale to other Americans for what it will fetch in dollars. As other Americans would have no use for it either, it would clearly fetch very little in dollars.

In other words, if it were not for exchange controls, the exchange rates of those foreign monies, in terms of dollars, would be knocked down to next to nothing and their economies ruined. Nor is it to be thought that when their currencies had been thus devalued in terms of dollars, their goods would be allowed to flow freely into the U.S.A., and so restore balance. If, for example, the British £ depreciated in terms of the dollar to a point where our goods did defeat the American tariff, it would be represented in America that they were produced by sweated labour, and so they would appear to be, if British wages were converted into dollars at the depreciated exchange rate. The United States would thereupon stop British imports. These then, are the reasons why the non-dollar nations are not willing to remove exchange controls.

The only other course open to American owners of that foreign money is to use it to buy up fixed assets in the country where it is legal tender. Those investments will produce interest, dividends, etc., and these will be added to the excess of foreign currency earned by the United States in the next year so that the amount of foreign fixed assets which will have to be bought as year follows year will progressively increase. This type of foreign investment by the U.S.A. far from helping to close the dollar gap, will, on the contrary, tend to widen it.

A clear distinction should, it is submitted, be drawn between two very different forms of foreign investment. The first consists of putting a new capital asset into a foreign country on loan, an asset which that country could not have afforded to buy out of its current foreign earnings, and which is calculated to increase the economic strength of the borrower. To put capital into a foreign country to develop latent resources; to send men with skills not possessed by the inhabitants of that country, are forms of foreign investment which the recipient country, if alive to its best interests, should welcome. The second is the type of foreign investment to which reference has been made in the foregoing paragraph, where a country exports current consumer goods, refuses to accept payment by taking imports either directly or indirectly, i.e., either from the country to which it sold or from some third country, but instead uses the proceeds of that sale to buy up the existing fixed assets of

the country to which it sold its goods. This, far from increasing the wealth of a debtor country by increasing its productive equipment, merely results in the ownership of its existing capital assets passing out of the hands of its own nationals, and into those of foreigners. Whilst no great harm may be done if this happens on a small scale, it can only create extreme tension, illwill and fear, if it reaches dimensions which threaten the economic, and therefore the political, independence of the nation which suffers from it.

Part I of this Memorandum has been designed to show:

(i) what the fundamental conditions were which made workable the nineteenth century technique of international payments, i.e. convertibility.

(ii) that the vast changes in the political, social and economic conditions which have taken place in the last 40 years, have either destroyed or greatly modified the very basis upon which the old system of international payments rested.

(iii) that that system is therefore an anachronism in the second half of the twentieth century and cannot be restored.

This was a view which this Chamber reached 23 years ago, and the passage of time has merely confirmed the correctness of that view. So long, however, as the nations refuse to recognize what is admittedly an extremely uncomfortable fact, and persistently reiterate their determination ultimately to restore the nineteenth century system, they will not be prepared to consider possible alternatives which would work in the very different world in which we now live.

This Chamber was naturally challenged to advance an alternative system which, in its view, would work. It was evident that any fundamental change would involve substantial sacrifices on the part of certain sections of the community and that nothing but fundamental change could be effective. Perhaps, most difficult of all, it involved the abandonment of long-held and deeply cherished sentiments and beliefs.

This Memorandum has therefore been divided into two parts so that those who are not convinced by Part I that the old system can never be restored, need not spend time in considering a possible alternative.

PART II

In its suggestion for a twentieth century technique, the Chamber did not aim at theoretical perfection, nor did it suppose that any system it might put forward would remove, as by a magic wand, all the economic ills from which humanity suffers. Its modest aim was to find a system which would enable the traders of the world to go about their business of exchanging goods and services between the nations on a multilateral basis. If this objective was to be realized it seemed to them that certain fundamental ills must be cured, even if lesser ills must be endured.

It will have been seen from Part I of this evidence that, in the Chamber's submission, the primary cause of the breakdown of the Nnineteenth Century System of International Payments was the unwillingness of the World Creditor to take its payments from the world in the only possible manner, namely, in imports. The consequences of the collapse of the old system have been far-reaching indeed. Nations no longer held together by a common international financial system have moved along most diverse economic paths, driven by the urge of self-preservation. Many of the economic theories accepted without question in the nineteenth century are now rejected, and the techniques upon which that system depended are no longer acceptable, and would not be tolerated.

The Chamber felt therefore that in seeking a new system which would work in the modern world it was necessary to return to first principles.

In the early days of international trade the Merchant sent out his ship filled with beads, axes and other merchandise which he believed would be rare and acceptable in the country with which he proposed trading, and exchanged these for ivory, spices and other commodities which were rare and acceptable in his own country: trade was a matter of simple barter. The introduction of money was designed to facilitate the exchange of goods of one country for the goods of another since it enabled a three-cornered deal to be done. It enabled our Merchant to sell his goods in the first country, receiving their money in exchange, then to buy goods in a second country, paying for them with claims on the goods of the first country, i.e., the money of that country. The bargain was not complete until the second country utilized that money to buy the goods of the first country. It will be seen that implicit in the transaction was the conception of an exchange of goods and services between countries to their mutual advantage: that the giving of money was merely a convenient halfway house towards the final completion of the transaction.

This same conception is to be found in operation internally in every country. If a man in Canada owes another a dollar, he has discharged his debt when he gives him a dollar. As a piece of paper a dollar is worth nothing. Its ultimate value is that, being legal tender in Canada, it will exchange for Canadian goods and services. Whether the creditor does in fact exchange his dollar for Canadian goods or not is no concern of the debtor. He is not called upon to see that his creditor does, in fact, exercise his right to buy Canadian goods with that dollar. It is recognized that you can take a horse to the water but you cannot make it drink; and in no country is one citizen expected to remain in debt until his creditor spends the dollar he has given him. Here then is the fundamental weakness of the Nineteenth Century System of International Payments.

Whilst in theory every nation now agrees that it cannot be paid for its exports unless it is prepared to accept equivalent imports, in fact, no nation has hitherto faced the logical corollary. This corollary is simple, namely, that should the exporting nation be unwilling to exercise its claim to the goods of the importing nations, it is illogical that the importing nations should be treated as though they were defaulters, and subjected to all sorts of pains and penalties. The importing nations cannot, in fact, compel the exporting nation against its will to accept imports, nor should they in equity be required to do so. To the extent that they are able to force their goods into a country which is an unwilling buyer they must expect to make a very bad bargain. And to the extent that they are prevented from making a sale, even on unfavourable terms, they find themselves with an unpayable debt—unpayable not because they are unable or unwilling to pay but because their creditor refuses to take payment. A transaction which they had envisaged as a mutually advantageous exchange of goods and services with a neighbour, when they made their purchase, is frustrated half way through by the unwillingness of that neighbour to accept their goods and services in exchange (or those of a third country in the case of multilateral trade); instead they find themselves in the position of insolvent debtors. If they have a freely convertible currency, it can be sold for what it will fetch, and so be knocked down on the foreign exchange market. If, through exchange control, they protect themselves against this injury, they may find that the money which they handed over in payment for their imports, instead of being used to buy their exports, may be used to buy their existing fixed assets, or in order to prevent the money which should have gone to buy their exports being used

for either of the foregoing purposes, they may be forced into borrowing it at interest. This last course merely postpones but does not solve the problem: it makes it worse.

These are perils connected with international trade against which nations try to protect themselves as best they may by all manner of restrictive practices and by doing their utmost to become self-sufficient. International trade, which should be a matually advantageous thing, and a bond of union between nations, has been perverted into a form of cold war conducive to international ill-will and fear. These then are ills which must be cured if international tension is to be eased, the movement towards extreme nationalism halted, and the money barriers which now prevent the Free Nations from exchanging their goods and services removed—especially those between the Dollar and Sterling Areas.

No doubt there are many techniques which could be employed to give effect to the fundamental principle enunciated above, namely, that a nation which exports goods and services to the world should receive in return nothing —more not less— than a right to the goods and services of the world. Whether or not it then chooses to exercise that right and import the goods to which it is entitled should be its own affair. It could either do a small export trade and a small import trade, or a large export trade and a large import trade. These are matters which it alone could decide. It could also, if it so wished, do a large export trade and a small import trade, but in that case it must recognize that the surplus of its exports over its imports constitutes from its point of view a form of public works abroad in order to keep its own people fully employed. That again is purely a domestic matter. It might equally well do public works at home. It could either pay men to make goods, which are then exported and nothing comes back in exchange (public works abroad), or it could pay men to dig holes and fill them up again (public works at home). The essential change from the old technique must be that a nation which decides to do public works abroad, i.e. export in excess of its imports, must not thereby be given the means to inflict injury on the economies of other countries, whether by knocking down their exchange rates or by buying up their existing fixed assets.

The particular technique, to give effect to these principles, which commended itself to the London Chamber many years ago, had the advantage of great simplicity, and further, did not require the businessmen of the world to learn new methods: the Bill of Exchange which has been in international use since the fourteenth century would continue to be used. Moreover, it would enable nations with very different internal economies and at different stages of economic development to trade together on a mutually advantageous basis. Under the proposed system a nation which takes the imports from the world to which it is entitled will be paid. A nation which does not wish to take those imports will not be paid: in fact, as is now generally recognized, it cannot be. Therefore the system is merely being realistic in recognizing fact. It is not asking any nation to forego anything which it has at present, except the power to harm other nations, without helping itself. Moreover, the system would restore international financial discipline: this was one of the good features of the Gold Standard. A nation which consistently imported from the world beyond its ability to pay for those imports with acceptable exports to a willing buyer—and willing is the operative word—would soon destroy its international credit. A nation which indulged in internal inflation would soon find itself getting out of balance in its international payments, and under the new technique it could not alter its exchange rate unilaterally as it can at present.

Further, the adoption of this system would be a most effective answer to Communism. It is represented to the Marginal Nations that under present

conditions they have the choice between being over-run by the Communists, or being bought up by the Capitalists—a choice which is not likely to arouse great enthusiasm in their minds for either side. If, however, the free nations adopted a system embodying the principles here enunciated, that system would be so vastly more attractive than the Communists', that the U.S.S.R. would realize that in the event of war their Satellites would come over to our side at the first opportunity, and this in itself would constitute a great deterrent. One might go further and say that if, in fact, such a system did exist, the news of it might well penetrate into Russia itself. To eliminate economic tension and fear between nations has, with the arrival of the Hydrogen Bomb, become an urgent and vital matter. To abandon cherished sentiments and beliefs may be painful, but the consequences of not doing so may be disastrous.

The broad outline of the Chamber's scheme was given in non-technical language in a Memorandum on a System of Multilateral Contra Account (*vide* Appendix) submitted by it to the International Payments Committee at the 16th Congress of Chambers of Commerce of the British Empire held in South Africa in September, 1948.

13th April, 1954

APPENDIX

SIXTEENTH CONGRESS
of the
FEDERATION OF CHAMBERS OF COMMERCE OF THE BRITISH EMPIRE

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Extract from Memorandum on a System of Multilateral Contra Account Submitted by the London Chamber of Commerce to the International Payments Committee

The Chamber's solution, put forward seventeen years ago, is as follows:

Exchange rates would be fixed by Convention—they have been for the last nine years.

All international trade would be done on Bills of Exchange. Goods could not leave the country without a Bill of Exchange being discounted: it would be a necessary shipping document just as an invoice, an insurance policy and a bill of lading are now. For example, if I wish to sell a motor-car for £1,000 to Smith in Boston, I should draw a Bill of Exchange for $4,000* on Smith. If I wished to give him 30, 60 or 90 days' credit, this would appear in the price I charged him. I should discount that Bill in the ordinary commercial way with one of the banks and receive my £1,000 less the discount rate. The bank would be under legal obligation to re-discount the Bill with the Bank of England, i.e., the nation, and they would receive £1,000 less the re-discount rate. My sole anxiety would be whether Smith would prove to be an honest and solvent buyer. I should not be concerned with foreign exchange. I should, in fact, have received my money at the time I shipped my goods. If, on due date, Smith met the Bill by paying $4,000 through his bank into the American Exchange Control, Smith too would have met his obligation in full and would be out of the picture. The American Exchange Control would then chalk up on the board "Credit the United Kingdom with $4,000." Great Britain could not take that $4,000 and use it for any purpose. It could only

* In 1948 the exchange rate was approximately $4 to the £.

clear its credit of $4,000 when the process was reversed and an English importer bought goods from an American. The English importer would pay his £1,000 through his bank into the Bank of England, which would then credit the United States with £1,000. These two amounts would then cancel out (Contra Account). This is a simple case of bilateral clearing.

In order to make it multilateral, all that would be necessary would be to have a common meeting place where the Central Banks of all nations would have their representatives. This would in no sense be a World Bank. It would then be possible, e.g., for the Bank of England to ring up its representative at this Central Clearing House and instruct him to go on to the floor of the house and try to exchange a claim on one country for a claim on another. There would be no question of buying and selling as the exchange rates would be fixed. Through this mechanism the claims held on one country could be exchanged for claims on another so making the exchanges three or four cornered (Multilateral).

The essential feature of this scheme is that nations would recognize that exports could only be paid for by imports: that it was their duty and obligation to maintain their own external payments with the world in balance. To give effect to this concept it would be agreed amongst the nations that if they did not clear their claims on other nations within a period of years, e.g., seven years, that claim would automatically lapse under a Statute of Limitations. For example, if the United States ran a surplus at the present rate of £2,000,000,000 per annum for, e.g., seven years, she would have £14,000,000,000 outstanding credits. At the end of seven years from now, credits created this year would have been in existence, uncleared, for seven years and would therefore lapse, reducing the American holding to £12,000,000,000. Of course if they did another £2,000,000,000 excess in that eighth year, the total would be back to £14,000,000,000, but at the end of the eighth year the £2,000,000,000 of credit created seven years before would also lapse, again bringing the total down to £12,000,000,000. In other words, the United States would have all the insurance against disasters necessitating abnormal imports which she could possibly need. At the same time, these credits would not constitute a threat to the exchange rate of any other nation, nor could they be used to buy up other nations' existing fixed assets.

Let us now consider the position of a nation which deliberately imported far beyond its capacity to pay with acceptable goods to a willing buyer. This situation would very speedily become apparent to the other Central Banks. They would find that the outstanding credits which they held on that nation were growing. They would also find that when they went into the Central Clearing and tried to exchange those claims for claims on other nations, no other nation would be anxious to acquire them. They too would already have outstanding surpluses with that nation. In short, that nation's credit would become bad, and if it persisted in its misbehaviour the other nations would ration it. This they could do quite simply by informing their exporters that next quarter they would only re-discount Bills drawn on the nationals of that country to a total value of, e.g., £20,000,000, instead of, e.g., £25,000,000, and that before agreeing to ship goods, an exporter had better ascertain whether the delinquent nation had already used its quota for that quarter. If so, they would have to wait until the following quarter before shipping their goods.

The technique of the last century, under which loss of gold was regarded as a barometer indicating that a nation was getting out of balance was extremely primitive. The loss of gold might, of course, be due to large capital movements and have no relationship to the trade balance.

It will be noticed that under the scheme here advocated, the Central Bank could know, at any moment, exactly how it stood with the world as a

whole, and with every nation in it. It would make payment to its own nationals for their exports when it re-discounted their Bills of Exchange, and it would receive payment from its nationals for all imports when those nationals met their Bills of Exchange.

Interest and amortization on foreign loans would be paid by the borrower into his National Central Bank, which would thereupon credit the lender's Central Bank, which would pay the lender. The credits created in this way would be indistinguishable from the credits created by importers paying for current imports, and could similarly only be cleared when the creditor country created a contra account by importing.

The CHAIRMAN: Thank you indeed, sir. The meeting is now open for honourable senators to ask questions.

Hon. Mr. LAMBERT: Mr. Chairman, I do not want to ask any particular question at the moment but I should like to draw attention to the fact that this statement which has just been delivered is full of interesting and slightly provocative material. I do not think in the time that is left to us before 11 o'clock, when another committee meeting is to be held, we could begin to encompass this subject. I should like to suggest, therefore, that some thought be given to a later sitting with the witness at which time we could have a better opportunity of discussing this matter.

Hon. Mr. GOUIN: We would be delighted to have an opportunity to ask questions, but with the five minutes that we have left it is impossible to have such an interesting question and answer period. I should like to congratulate the speaker and to thank him for having made a few remarks in French.

There are two expressions which I shall never forget. The first is, "Money Curtain", and the second, that international trade has become a form of cold war.

Whereupon the committee adjourned until the Senate rises this afternoon.

At 4 p.m., the committee resumed.

The CHAIRMAN: Honourable senators, I call the committee to order. For the benefit of those who were not here this morning, Mr. Leigh presented his brief, and afterwards it was moved that the committee adjourn until the Senate rose this afternoon, for a question period. Now, the meeting is open for questions, and Mr. Leigh will answer any questions honourable senators wish to ask, in order to clarify any statements in the brief.

Hon. Mr. HAIG: Mr. Chairman, I listened this morning to Mr. Leigh read the brief, and apparently he suggested an arrangement to solve the problem by a central bank in some country, but the point that worries me about it all is this: The only country, apparently in the world which has a surplus is the United States of America, and may be Canada has also, I am not sure. But let us take the case of Canada. We buy more from the United States than we sell to her. Before the war we used to do the same thing, but we sold then to Europe more than we bought from them, and they gave us American exchange and we used that to pay our bills to the United States. Now that has been largely cut off. It is true that money from the Marshall Plan helped us to some extent. But in the last two years the trade of the United States has taken another slant. We sell less goods to them than we buy from them, but they are investing large sums of money in this country by way of permanent investment. The result is that our money is above the par of exchange, but that can only last until that investment stops.

Now, what is going to happen in a country where production is not sufficient to keep up the standard of living that is enjoyed now, and to which they have become accustomed, under your scheme, Mr. Leigh? How is

that ever going to be met? And remember, a great many of the countries of the world—Iran and others, have decided that they want to be independent. How are we going to meet that deficiency in those countries?

Mr. LEIGH: Senator Haig, I think I can explain the first point fairly easily. It is whether you can meet it by a multilateral scheme. I think you could. In other words, this is not designed to be a bilateral scheme. Canada would get credits as usual in the country where she sold, and then go into the international clearing and exchange the credit with that country for credits in the United States. You may say that does not put the United States in balance. Of course, it does not, but the United States must put itself in balance by taking imports from somebody, not necessarily Canada, and if she does not take her payments in the form of imports she cannot be paid under any circumstances or under any system.

Hon. Mr. HAIG: How are you going to make the American people believe that?

Mr. LEIGH: Well, I do not honestly think, if I may venture to say so, that they will do other than they are doing at present, namely, have an excess of exports, because there are only two other courses open to them, as I see it. An excess of exports is a method of getting rid of their unemployment. The United States by their method has been extremely prosperous for the last 14 years, because any manufacturer who over-produced anything could always export it and get paid by the United States taxpayer. Instead of saying, "Jones, we cannot consume your product in this country, and therefore you are out of a job, and the American taxpayer must pay you to do some public work at home"—you say to Jones, "Go on producing your product; we will export it, and nothing shall come back, and the American taxpayer will pay you your wages." Well, that is far cheaper than the other way. I have heard it estimated when President Roosevelt was in office, about 80 per cent of the money voted by the taxpayer went to organize the work of the unemployed, and only 20% in wages to the unemployed. If you leave the man at his ordinary job, his employer will continue to organize his work, and this is the much cheaper way for the taxpayer.

The second point is this: If you do in fact take him out of his usual employment and find something for him to do—even something quite useful—he knows that work is being created as an excuse or as a reason for giving him a job, and he feels himself to be an unwanted member of society; he is out of his union, and he has no security and he is doing something which normally would not be done; he feels that people are saying of him, "I am keeping that man out of the taxes I pay." I suggest that is a way to embitter a man and make him ready to listen to the agitator. On the other hand, if he is left in his regular job he feels he is a useful member of society. On the whole, I believe the United States will in fact prefer public works abroad to public works at home.

I may be asked, if there is any other course they could pursue? They could export to the world only enough to pay for necessary imports, and increase the effective demand in the U.S.A. of those with the lowest standard of living by more extensive social services. They would then have to reduce the productive capacity of those industries which now export heavily—such as engineering, which I think exports 20 per cent of its output. The labour thus released from the export industries would be diverted to satisfy this new demand. I suggest that is one of those things that can only be done gradually over a period of years, if you do not want to have very serious social troubles in your country.

Hon. Mr. LAMBERT: I wonder if the witness could tell us the value of British exports to the United States per year?

Mr. LEIGH: I am afraid I cannot lay my hand on the figure at the moment, although I feel sure it is among my papers. The imports of British goods by the United States are quite considerable.

Mr. LEIGH: Quite considerable.

Hon. Mr. LAMBERT: Over a billion dollars a year.

Mr. LEIGH: I think it is about the same as the export business we are doing in Canada.

Hon. Mr. LAMBERT: It is much greater.

Mr. LEIGH: I do not think it is very much greater; about the same.

Hon. Mr. LAMBERT: I do not have the exact figures on that, but I think you are mistaken.

Mr. LEIGH: I am sorry, I do not seem to have the figures here. I was more interested in the question of balance of payments.

Hon. Mr. LAMBERT: We can get those figures. However, I think it is a mistake to suggest that there is a complete exclusion of British goods from the United States.

Mr. LEIGH: I would not suggest that.

Hon. Mr. LAMBERT: I think, from my own casual observations in the United States, that in the line of woollen goods, for instance, British goods were more saleable in the United States, and were selling more freely, than corresponding goods in Canada. That same characteristic of the export trade of Great Britain applied also to the West Indies, where high priced goods were more saleable than corresponding goods in Canada. It is not altogether a problem of the relationship of the dollar with the pound; it is pretty much, I think, a problem of inflated prices and values. Would the witness deal with that point? I do not think there is any question about the fact that inflation characterized the prices of goods in Great Britain immediately after the war, and probably to a certain extent still does.

Mr. LEIGH: Mr. Chairman, I have the figures now as to the exports to the United States. In 1952 the visible exports from Great Britain to the United States amounted to $575 million.

The CHAIRMAN: Have you the figures for Canada's imports? I think they run fairly close.

Mr. LEIGH: They are not far off.

Hon. Mr. LAMBERT: I think they are less than that.

The CHAIRMAN: I recall reading the figures less than a year ago, and to my surprise noted that they ran fairly close to those of the United States. However, we can get the exact figures from the Bureau of Statistics.

Mr. LEIGH: The point I was wishing to bring before you did not relate to the balance of payments of the United Kingdom. I think the U.K. is going to be all right. I am concerned with the question of the Free World vis-a-vis the United States. In 1952—which was the last year for which we have figures on visible and invisible account—the U.S.A. had an excess of 4,973 million dollars' worth of business with the world. If we made the pound convertible, other nations would sell to us, would refuse to buy from us, but would instead demand dollars. That is what happened and is happening today with Spain. Spain sells to Germany, France, Belgium and she gets currency which can only be used in those countries; she therefore has no option but to buy there. She sells to Great Britain and she gets transferable sterling which she can use to buy wool and wheat from Australia or any part of the sterling area; it is the only currency she can use in that way, and so she cannot afford to use it to buy our manufactured goods. We are living in one world today. It is not a question of whether the U.K. can balance her accounts with the

world, but a question of whether the United States is going to balance her 5,000 million dollar surplus with the world. If she has a favourable balance annually with the world of $5,000 million, then the world must have an unfavourable balance to the same amount with the United States: it is simply the other side of the same balance sheet.

Hon. Mr. HAIG: Where does all that end?

Mr. LEIGH: The fact that the U.K. is able to balance her account does not help the world situation; it only means that other nations are in greater indebtedness; they are going to be in difficulty and be obliged to stop imports, and thus interrupt world trade.

Hon. Mr. TURGEON: May I ask a question to see if I have interpreted your answer correctly? Do I understand you to claim that in the light of the world situation today, the United Kingdom would be in a better position to allow the pound sterling to remain inconvertible than to make it convertible?

Mr. LEIGH: Thas is my view.

Hon. Mr. LAMBERT: To follow up that question, at the end of the war, in 1945, the United Nations Charter was signed by all the allied countries. That charter included a special agency called the National Trade Organization which has subsequently held four meetings, one at Geneva, another at Havana, one at Annecy and one at Torquay. Did Britain take any part in those meetings?

Mr. LEIGH: Yes, Britain certainly was quite interested in the possibility of setting up such an organization and taking part in it. The United States congress however did not like it, and so we were thrown back on GATT, a sort of substitute for a much more comprehensive and powerful body which was to have been set up after the war.

Hon. Mr. LAMBERT: But it is true, is it not, that the British decided on the sterling bloc policy of financing and trade, and did not become participants in the International Trade Organization conferences? True they were observers, but I think they discarded any possibility of becoming a party to the trade agreements.

Mr. LEIGH: I think that is quite wrong. I think we were quite definitely in. It was the United States that would not have it.

Hon. Mr. LAMBERT: I beg your pardon?

Mr. LEIGH: I think we were quite definitely interested in the proposal. We never did get to the point where legislation would have been necessary.

Hon. Mr. LAMBERT: I think it was stated in the British House of Commons at the time that they were not taking any part in the Geneva conference.

Mr. LEIGH: I am quite sure the Honourable Senator is mistaken in that.

The CHAIRMAN: The British took quite a big part in it.

Hon. Mr. KINLEY: Mr. Chairman, I think it is fair to assume that trade is based on need, the need of goods, and inasmuch as we are in a free enterprise economy, individuals will, if they see it is to their advantage, buy from the United States. It is assumed that people buy the goods that they do buy because they calculate it is to their advantage to do so. Now, how would you balance that trade with the United States?

Mr. LEIGH: Well, under the technique which I am advocating, you would buy from the United States, you would sell to the rest of the world as you used to before the war, and it would be up to the U.S.A. to clear the account by importing, although not necessarily from Canada.

Hon. Mr. KINLEY: Their need is there but they cannot buy.

Mr. LEIGH: The United States would not?

Hon. Mr. KINLEY: No, you say we sell to the rest of the world. The rest of the world will buy what they need, if they have the funds. But how can we control that?

Mr. LEIGH: Under my scheme it would not work like that. It would not require all that to happen. Your exporter would get his money when he shipped the goods and Canada would get a blocked account in the country to which you sold.

Hon. Mr. KINLEY: But how are you going to balance the advantage in the value of the money as between the countries?

Mr. LEIGH: Well, at the present time the exchange rate between Canada and the United Kingdom is $2.76 for the pound sterling, and I see no reason why that rate should be altered.

Hon. Mr. KINLEY: Is not the United States at a great disadvantage by reason of the high rate of exchange on their money as against the sterling exchange in Europe?

Mr. LEIGH: I do not think you can say it is a great disadvantage. They are able to sell an excess of $5,000 million worth to the world. I do not think it would be to their advantage to be able to sell more. In fact, the United States did have an excess of exports over imports of $11,478 million in 1947.

Hon. Mr. KINLEY: Of course, the United States is so well contained that she does not need to import things as much as other countries may have to, and she is the greatest exporter in the world notwithstanding that she has the highest standard of living in the world. Now, is that an achievement?

Mr. LEIGH: I am not quite clear as to what you are asking me, honourable senator. That is so, but what are we going to do about it?

Hon. Mr. KINLEY: That is the point, what can Canada do about it?

Mr. LEIGH: Well, we should do something about it. Either the United States should do a small export trade and a small import trade, or she should do a large export trade and a large import trade or he should do a large export trade and recognize a small import trade. In the last case she must recognize that the balance is a means of getting rid of unemployment: she is exporting her unemployment and has had her reward.

Hon. Mr. KINLEY: I was talking to a relative of mine who was in Portugal the other day. Portugal is very friendly to Britain. Their fishermen have bought all their machinery and trawlers from United States firms. I suppose they did that because they secured the best material at the price they wanted to pay. But what can we do about that?

Mr. LEIGH: I do not think I should get deeply into this, being, as it is, so far away from the subject.

Hon. Mr. KINLEY: Now, consider the Trade with the United States. The impression is that their duties are so high that they keep out foreign goods. I remember a short while ago I went into a shoe store in one of the cities of the United States, and tried on a pair of shoes, and in the course of doing so I said to the clerk, "These shoes are made in Britain," to which he agreed. I said, "If that is the case I can buy these shoes in Canada," and he said that they are cheaper there because they enter the United States free of duty. Well, that is a concession by the United States. I cannot imagine that British shoes should be allowed free entry into the United States.

Mr. LEIGH: Some things are free and a great many are not. Some duties are very high. I think myself that that is not really the crucial question that the United States has to answer. Either she does want imports or she does not want imports.

Hon. Mr. KINLEY: Well, it is her people who do the buying, and it is a free economy.

Mr. LEIGH: I think you will find that the various techniques used to keep out goods are quite considerable. You have the Buy America Act as an instance. British firms tendered in the United States for the supply of electrical equipment and their tenders were far below the American tenders but they were refused under the Buy America Act. It was not a question of price. Then there are certain other techniques, for instance, the customs, under which you cannot discover what your duty on the goods will be, and you may not know for two or three years after they have been imported.

Hon. Mr. KINLEY: Take our trade with the West Indies, for instance. The British West Indies and Canada in an entirely free economy would have a balance of trade which would be in favour of the West Indies, but Canada has always had an adverse balance of trade with the West Indies, which is one of her natural markets. However, we have been excluded from the British West Indies market by regulations, and in the Maritimes especially we feel we have lost money in the last number of years and that these conditions affected our economy considerably. If we were allowed to have free trade with the British West Indies, we feel that considerable business could be done by both countries.

Mr. LEIGH: The whole object of my submission is to enable the barriers which now exist owing to dollar shortages to be eliminated, to enable all the nations to trade together once more as they could before 1914. That is the whole object of this exercise.

Hon. Mr. ROBERTSON: Mr. Chairman, I would like to ask the witness a question. In effect his proposals seem so reasonable and attractive to me that I find it hard to grasp why the United States, as the great creditor country, would not prefer it as a basis rather than to require specifically Britain to make sterling convertible again, knowing as she must, or as you suggest, that under existing circumstances, it would merely run out as it did before and we would be worse off.

Now, in effect, what this proposal says is that if a country voluntarily wishes to export more than she imports over a period of years, if she wishes to do that for whatever prompts her to do it, at a certain period of time—Mr. Leigh's instance is seven years—those credits which she accumulates will automatically lapse, if she prefers to do that.

Mr. LEIGH: Yes, entirely right.

Hon. Mr. ROBERTSON: If I am, why would not the United States and its financial authorities prefer a regular basis like this, rather than the other? I do not seem to grasp that.

Mr. LEIGH: In reply to that, one hesitates very much to say why anybody does not want to do something or other, because unless you have been told, you are merely guessing. But quite evidently you cannot have a system which has existed as long as the old system has existed without establishing very strong vested interests in that old system, and therefore any change must, on the face of it, appear disadvantageous to those vested interests. But if, as I believe, the old system cannot in fact be restored, that it is as dead as the dodo, then you are not in reality depriving these interests of anything, because it has gone anyway. And I believe that to be so. I believe that the old system will not in fact be capable of being restored. When one considers that the old system has not functioned for 40 years adequately and satisfactorily, that is, enabled all nations to trade together freely and knowing that short of their buyers being insolvent or dishonest they will be paid, the probabilities of its successful restoration seems remote. During those forty years we have had two attempts to restore the system. The first was when we went back to gold in 1925. We remained on the system for six years; it produced severe

unemployment and conditions which brought about the general strike of 1926. That was a six-year period. Thereafter we kept the pound convertible up to the outbreak of war, but only by having widely fluctuating exchange rates.

That is one experiment in forty years. The other experiment lasted exactly six weeks. So it is six years and six weeks out of forty years in which something like the old system was restored. Yet we have been trying the whole of that forty years to restore it. I think it is high time we recognized that the old system cannot be restored under the very different circumstances of the second half of the twentieth century, and that we thought again, and fundamentally, about this thing, trying to find some system which will work in the second part of the twentieth century.

Hon. Mr. LAMBERT: When you speak of "the old system" and "the new system": to put it more simply from the point of view of trade, is there anything in the immediate future that can be looked forward to comparable to the system under which this country and others did international trading before the war, where it was possible to deal in terms of other peoples' currency within a fraction of a cent of the value of one's own currency? I am not referring now to the old gold standard that used to underlie it all, but there was a technique in international trade which certainly worked out very well, and to dispose of that by saying that it will never come back, and that we have got to look forward to a different sort of technique which will involve the pound sterling in relation to the dollar on some planned basis, certainly does not satisfy my mind as being the ideal state for the future.

Just while we are on that point: I wonder if the witness could state approximately when the sterling bloc basis of financing and trading commenced in Great Britain's relations with other countries which are still within the sterling bloc. Approximately, I think, it was around the beginning of the war, 1940.

Mr. LEIGH: The system as we know it now did, but long before it was in existence in a different form than we have got it now.

Hon. Mr. LAMBERT: It was not as exclusive in those days as it is now?

Mr. LEIGH: No, because, as I said, the pound was convertible into all currencies between the wars, but only at the expense of having very widely fluctuating exchange rates. We never managed to keep a stable exchange rate with that system, after we were driven off gold in 1931.

Hon. Mr. LAMBERT: That wide fluctuation really did not occur till the early thirties, did it?

Mr. LEIGH: No. Between 1925 and 1931 we maintained the gold standard. We were driven off the gold standard in 1931, and after that we still maintained sterling convertible into all currencies, but at a fluctuating exchange rate.

Hon. Mr. LAMBERT: You had an Exchange Fund in London which was the main guiding influence in connection with that international trade?

Mr. LEIGH: Yes.

Hon. Mr. LAMBERT: And that Exchange Fund was under the control of your Treasury Department?

Mr. LEIGH: Yes.

Hon. Mr. LAMBERT: But this is what I am trying to get at. Today, and for some time now since the end of the war, Britain has been the nerve centre of the sterling bloc system, and has represented in that system the major part of this world's population. Now, British trade under that system has increased, I believe, until at this date and in the last few years it has exceeded what it was prior to the outbreak of war. That trade would be represented mainly in its relations with the sterling bloc countries, I presume?

Mr. LEIGH: No. I think that is not so. I think the answer really is that the peoples of the world have always been in the habit of using the pound as an international currency; in fact they sold in pounds and they still do. They have considerable confidence in London and they do what they have always done. It is very largely a matter of habit. Countries in the sterling area bloc have a common reserve fund. There is no such thing as a United Kingdom reserve fund; it is a reserve fund of the sterling area.

Hon. Mr. LAMBERT: What you call "the pool"?

Mr. LEIGH: The pool. Before the war Great Britain had very large investments and therefore imports were considerably more valuable than her exports. During the war Great Britain's visible export trade went down to one-third of what it had been before the outbreak of hostilities. That was a deliberate policy. Great Britain did not lose that trade; she handed it over. Great Britain concentrated on war, and the United States took over that overseas trade. It was part of the arrangement that they did so. At the end of the war not only had we relatively few investments, and precious few ships which used to earn a lot of money for us, but our export trade was only one-third of what it had been prior to the war. However, in the course of about nine years we have built up our export trade, as obviously we had to in order to pay for our imports.

Hon. Mr. LAMBERT: It is far in excess of what it was in 1938-39.

Mr. LEIGH: It is bound to be because we have not got those investments. We have to pay for our imports with our exports.

Hon. Mr. CRERAR: I should like to ask the witness a question. Would he agree that the trade policies of various countries are influenced largely by their unemployment problems at home? That is to say, there appears to be a general acceptance of the fact that the business of governments is to maintain full employment in their own countries; a step of course towards the magnification of the state and its place in the body politic. Take Great Britain. If British textiles are threatened with competition from a low-cost country like Japan—

Hon. Mr. LAMBERT: Or India.

Hon. Mr. CRERAR: —or India ultimately—would the reaction be to impose prohibitions on these goods or impede their entry into the country, for the reason that unemployment would be affected. We have seen the same thing happen in Canada. After the war when there was a great vacuum to be filled we got along very well, but now we have agitations against cheap Japanese goods coming in, and the same is true in respect to wools from Great Britain. We must protect our employment at home by taking the steps necessary to curtail or exclude these goods. We see the same thing happening in the United States today where different interests say to their government: "These foreign goods are competing with our standard of living and therefore you should exclude them." Does not this problem of unemployment have a rather strong bearing on the trade policies that each country can adopt?

Mr. LEIGH: Mr. Chairman, the answer to that question will vary widely in each country and according to particular circumstances. For instance, under GATT you have agreements not to put on more tariffs on certain commodities, as you know. Presumably, therefore, you cannot break your agreement with respect to those. Commodities may come in from other countries and undersell your own. Exactly the same thing happens in Great Britain with respect to textiles coming in from Japan and Czechoslovakia. But we do not immediately proceed to put on a duty or stop them, for we realize that international trade is a two-way affair and if you are going to stop anything that comes in that may undersell you, then you have stopped one side of the flow. Therefore, you have to accept that position. If, of

course, you had an important industry with a very large section of your population engaged in it, or only one industry in a locality, then you might decide to protect it. I think that is a matter which every nation must decide for itself. One of the attractions of my scheme is that the nations would be quite free to decide for themselves. In so far as they stop imports they will stop exports, unless they wish to make a present.

Hon. Mr. CRERAR: That is true, but they do not see that; they see only the problem immediately in front of their noses.

Mr. LEIGH: I know, but I am talking about a scheme that will have that effect as a general principle. In some cases you would decide you would protect a particular industry, and in other cases you would not do so. But in so far as you cut down the total value of your imports, then to that extent you would cut down the total value of your exports, if you wished to be paid. It would be up to every nation to balance its accounts with the world, and I think you would do away with a tremendous amount of argument and unpleasantness and tension between nations under such a system.

Hon. Mr. BURCHILL: I am very much interested in this discussion and the scheme which has been outlined before us today by Mr. Leigh. I am one of those unfortunate exporters who have suffered from the fluctuations of the pound sterling. The suggestion made by Mr. Leigh as to machinery to facilitate the flow of international trade seems to me to be very interesting. I was just wondering. I notice that it was put forward by the London Chamber of Commerce in 1948?

Mr. LEIGH: 1932.

Hon. Mr. BURCHILL: Senator Robertson asked a question about what action was taken in the United States. I take it they were not favourable towards you. How does the British Government react to it? What is the opinion of the United Kingdom?

Mr. LEIGH: That is a difficult question to answer. Originally when it was put forward it had a very poor reception. I think now you would find that it has not such a bad reception. By that I mean that most people would agree that the analysis of the situation is correct. Then, as to what they would say after that would depend very much on their interests. We are all liable to be influenced by the nature of the particular business in which we are engaged.

Hon. Mr. LAMBERT: I should like to ask again about the operation of the sterling bloc. The witness referred to the pool and I have referred to the central organization. How many countries are identified with the sterling bloc, do you know offhand?

Mr. LEIGH: Not offhand, no.

Hon. Mr. LAMBERT: Well, it is true that the pool or the central organization of the sterling bloc is in London and that the direction of the whole operation of the sterling bloc, financially, is directed from that pool. Is it not so that there are certain member countries of the sterling bloc which would prefer to trade with dollar countries but are prevented from doing so by the central organization or the pool—for instance, India?

Mr. LEIGH: No country, so far as I am aware, is obliged to be in the bloc at all, and there is nothing to stop them going out tomorrow.

Hon. Mr. LAMBERT: They can get out any time they like?

Mr. LEIGH: Yes, any time. Moreover, it is not rigid, as you rather implied it might be. It is a question of co-operation between the participating nations. It is done by arrangement, and then if the pool is being reduced, there is generally a meeting of the member governments, and they agree to help by cutting down their demands. But it is a mutual effort, and while as you say a country might do better if it were on its own in a given year, it is generally

true that all do better in the long run by being in. It is a measure of insurance to all of us. We all put our bit in, and take it out as we need it. It is spreading the risk. No one country need be quite so alarmed at the prospect of suddenly having no foreign currency as if it were on its own, because some years a country will put in considerably more than it takes out, some years vice versa.

Hon. Mr. LAMBERT: Some are in a better position, though, with regard to dollar exchange, are they not—Belgium, for instance?

Mr. LEIGH: Belgium is not in the dollar bloc.

Hon. Mr. LAMBERT: It was a member of the sterling bloc, though.

Mr. LEIGH: No.

Hon. Mr. LAMBERT: Are the Scandinavian countries members?

Mr. LEIGH: I think not, but am not sure.

Hon. Mr. HORNER: Mr. Chairman, I should like to ask a question, which I think we are all interested in. What effect would it have, for instance, if a country with surpluses for sale accepted the currency of the purchaser country? For instance, if Canada were to accept the British pound for wheat at the present time, what effect would that have?

Mr. LEIGH: What is she going to do with the sterling when she has got it?

Hon. Mr. HORNER: Could she not invest it in another country and make a large profit?

Mr. LEIGH: Well, she could invest it, but nations are not too enthusiastic, if they are developed nations, in somebody selling current production, refusing to receive current production in payment, and instead using the proceeds of that sale to buy up existing fixed assets. It is a very different thing if a country puts a new capital asset in on loan. What would your reaction be if a country said, "You must not discriminate against me, you must accept my motor cars, refrigerators and vacuum cleaners, because you accept them from others; it is true that others are prepared to take your goods in payment, and that I am not prepared to take your goods nor the goods of any other nation in payment. I want your fixed assets." Most of us would prefer not to have the goods of that country on these terms.

Hon. Mr. ROBERTSON: Referring to the point that Senator Horner brought up, is not your proposal, in essence, this, that if it suits the convenience of Canada, in selling its wheat and selling its lumber, and so on, in relation to what it buys again, to accumulate over a period of years an excess amount of sterling over and above what you have any intention of buying, you will write it off, or you will have the chance at the end of the time of writing it off, or imposing it? Your proposal says, for instance, "Burchill, here is your market for your lumber, and here is your market for your wheat. And if for everything that you want to sell, but to buy little or nothing from us, you accumulate a balance against us at that point, and at a certain period you have to choose between tearing it up or buying the other fellows goods"?

Hon. Mr. HORNER: Exactly. I would suggest, Mr. Leigh, that when you return to Britain you might point out that every season in the building industry in Canada there is a great shortage of cement, and that boats will be leaving Churchill in a month's time for your country, and that your salesmen should get busy and endeavour to secure sales, particularly for Western Canada. Our Hudson's Bay port is available to them. I merely offer that as a suggestion; there is an opportunity there for you to do some business.

The CHAIRMAN: In connection with our domestic trade, if a debt is not acted on in six years, it disappears, because we have a statute of limitations.

Hon. Mr. HORNER: Yes.

The CHAIRMAN: If we accumulated sterling and after seven years could not find a place to spend it—in Australia, Malaya, South Africa or anywhere else, it automatically disappeared.

Hon. Mr. HORNER: I was interested in what the witness mentioned this morning in regard to seven years. The term "seven years" is an old favourite, biblically.

Mr. LEIGH: That is why I chose it.

Hon. Mr. LAMBERT: There is no shortage of sterling exchange in this country now.

The CHAIRMAN: No, but the Bank of Canada does not recognize sterling.

Hon. Mr. CONNOLLY: Mr. Chairman, this scheme, I take it, does involve rigid import and export control on the part of any country that participates, in the last analysis?

Mr. LEIGH: No, I would say not at all rigid. I would say the position would be that your exporters would do their business with the private importers anywhere in the world just as in the past. They discount their bills when they ship the goods, and those bills go into the Bank of Canada, or whatever authority may be entrusted with the work, and thereupon the Bank will send them over for collection. In due course, Canada will get a credit in that country. Exporters will be paid by the Bank of Canada when they export, and importers will pay their dollars into the Bank of Canada when they import. On the other side of the sea the Bank of Canada will be credited with the foreign currency which those shipments represent. Therefore, they can say exactly how they stand with the world and with each individual country at any given moment of time.

Suppose Canada found her credits in country "A" were mounting, she would go into the Central Clearing and try to exchange them for credit in some other country. But if country "A" was importing from the world beyond her capacity to pay with acceptable exports to willing buyers, the other Central Bankers would be unwilling to take more credits on country "A". Country "A's" international credit would be bad. The Central Banks will say to country "A", "you will have to reduce your imports or increase your exports, otherwise we shall be obliged to ration you. Unless you take appropriate action we shall have to warn our exporters that next quarter we shall only re-discount bills drawn on your nationals to the vale of E.S.$300 million instead of E.S.$400 million.

Hon. Mr. CONNOLLY: That is exporter control.

The CHAIRMAN: That is banker control.

Mr. LEIGH: You are not controlling any particular export, but merely controlling the total volume of credit that you are prepared to hold in that country. The exporter will then have to find out whether country "A" has run through her $300 million quota for that quarter, and if she has, he will have to wait until the next quarter to ship his goods. It is a perfectly simple method of control.

Hon. Mr. STAMBAUGH: Mr. Chairman, may I put a question to the witness. Let us assume that Canada, over the past seven years, has built up an export business and now has a surplus which has to be written off.

Hon. Mr. HORNER: A surplus credit.

Hon. Mr. STAMBAUGH: Yes, a surplus credit. That must be written off, but must it be charged back against the exporters who did the business?

Mr. LEIGH: No; the exporters have received the money at the time of shipment. It is presumably Canadian policy which prevents adequate imports from coming in, and it is right that Canada should bear the loss.

Hon. Mr. HORNER: That is quite right. A nation may refuse to import sufficient to offset its exports and bring its trade into balance. That makes it impossible to do business with that country. It is similar to the situation of a creditor refusing to do business with a man who owes him money, when he should wipe out the indebtedness and start over again.

Hon. Mr. ROBERTSON: Yes; nobody is to blame for it.

Hon. Mr. HORNER: I take your statement to mean that is the new approach that we will have to adopt towards the countries of the world.

The CHAIRMAN: Yes.

Hon. Mr. HORNER: I agree with you on that point.

The CHAIRMAN: Mr. Leigh, an important witness from the United States told us that pound exceeded dollars, and that there was far more business done in pounds sterling than dollars. Is that correct?

Mr. LEIGH: That always has been so and still is. You cannot do international trade in a scarce currency; it must be freely available, and of course the dollar is not.

The CHAIRMAN: Of course the profits of the world come from world trade, do they not?

Mr. LEIGH: Well, I take it that the wealth of any nation is the acquisition of something it wants in exchange for something it does not want. In other words, you may exchange the things of which you have a surplus and somebody else needs, for something of which they have a surplus and you need. That obviously increases the wealth of both parties.

The CHAIRMAN: More exchanges are made today in sterling than in dollars.

Mr. LEIGH: That always has been so.

Hon. Mr. STAMBAUGH: I take it there is no machinery set up by which any nation could balance its trade with gold.

Mr. LEIGH: Most nations, if they accumulate a balance this year, will probably clear it off within the next two or three years by taking more imports. It is only if the balance is allowed to remain uncleared for seven years, that it will lapse.

Hon. Mr. STAMBAUGH: I understand that.

Mr. LEIGH: In the ordinary course, nations would have a balance, perhaps a running balance, but they will clear it over a period of time before it becomes due for cancellation.

The CHAIRMAN: Senator Stambaugh's question was whether gold could still be used to bring about a balance, in your system.

Hon. Mr. STAMBAUGH: Yes.

Mr. LEIGH: Have you in mind an increase in the price of gold?

Hon. Mr. STAMBAUGH: No, whether gold could be used for balance of payments.

Mr. LEIGH: In so far as countries are willing to take gold, certainly. Why not? After all if you are buying something, such as wheat, and you want to pay for it by a manufactured article, such as a piece of machinery, that is quite all right; and if a country would prefer your gold to your machine, why not let them have the gold?

Hon. Mr. STAMBAUGH: You are speaking of gold as a commodity.

Mr. LEIGH: Yes.

Hon. Mr. ROBERTSON: If you have it.

Mr. LEIGH: I think gold would play a definite part in this scheme, because it is a thing all nations would like to hold in reserve against a bad day. It can be put in a vault and does not deteriorate; nobody is going to accuse you of hoarding something that could be used for manufacturing purposes. I feel it could still play a very useful part.

Hon. Mr. TURGEON: Do you think the gold standard will come back?

Mr. LEIGH: No.

Hon. Mr. ASELTINE: Would not a return to the gold standard be a solution of our problem?

Mr. LEIGH: The total amount of gold produced per annum, apart from the U.S.A. and the U.S.S.R., on which we have no information, calculated at $35 an ounce is $700 million. If the people of the United States were going to use that as a means of receiving payment for their $5,000 million worth of balances, they would have to pay seven times the current price. I do not think it is practical to suggest that gold can ever be a means of settlement for these balances which today have grown so large that we could not meet them with gold. Gold was used in the past for the settlement of small amounts.

Hon. Mr. TURGEON: In the light of what you say, why is there worry on the part of other countries of the free world over the amount of gold that Russia may have accumulated during the past years? There seems to be an uneasiness over that situation.

Mr. LEIGH: I think the uneasiness rises from the fact that if, for example, the United States agreed to pay a higher price for gold than $35 an ounce, they would make a considerable grant in aid to the U.S.S.R.; if the U.S.S.R. then started to sell its gold on the market at an enhanced price, it would be able to buy world goods with the proceeds.

Hon. Mr. TURGEON: If the only reason for the uneasiness over Russia's supply of gold is that the American people might increase the price and buy a huge amount of gold, and thereby supply Russia with her requirements, how could that uneasiness be based upon anything but the feeling that gold might return to the position it held some years back?

Mr. LEIGH: The United States is the only country where they have a statutory obligation to buy gold as offered in unlimited quantity at $35 an ounce and ,therefore, clearly if the United States increased that price, say, doubled it, anybody who wishes to sell gold can get that price for it.

Hon. Mr. TURGEON: But why would the United States increase the price for gold if gold is never going to come back into the position it used to occupy?

Mr. LEIGH: It would be on the basis of one of two grounds: either to close the dollar gap or because they feel that the cost of production has increased very considerably and the price has not been raised since 1934. There are not many commodities which sell at the same price as they did in 1934.

Hon. Mr. TURGEON: The only point I cannot understand in your statement is the explanation of the uneasiness concerning Russia's amount of gold, because if gold is not going to occupy the position of value it once had, the cause of the uneasiness as stressed by you could never take place, in my opinion at least. So, it seems to me there must be some other cause for the uneasiness in parts of the world over the amount of gold that Russia might have under her control.

Mr. LEIGH: That has rather a political angle, and I should like my reply to be off the record.

(Discussion took place off the record.)

The CHAIRMAN: Are there any other questions, gentlemen? Senator Robertson?

Hon. Mr. ROBERTSON: I have no other questions. If there are no other questions, I would like to express my personal appreciation to the speaker for coming here today with his interesting and challenging proposal in regard to this question of trade. To me it is so interesting that I would have liked to have had somebody here who is skilled in matters of economics to a greater extent than I am to present what I presume everything else has, the other side of the story, because, if this matter did not have another side to it, it would be universally adopted. I cannot imagine any country that does not want to see the question of international trade solved, and a lot of attention has been directed to that end. Nevertheless, I do not know that that is possible. So speaking for myself, I would like to express my appreciation to you, sir, for this very, very interesting address and the very challenging proposals that you have made in connection with it.

Hon. Mr. TURGEON: I want to second that motion made by his Honour the Speaker of the Senate. I am positive that every member of the Senate committee very deeply appreciate your presence.

Hon. SENATORS: Hear, hear.

Hon. Mr. TURGEON: And I would like to mention particularly that we do appreciate the way you answered all the questions that were directed to you, sir.

The CHAIRMAN: I am sure we are all in favour of the motion. It has been a wonderful question period and we are indeed very grateful to you for the manner in which you answered the questions arising out of your brief.

Gentlemen, there is a brief on file from the Agricultural Institute of Canada which will be made available to senators. There is nobody here to present the brief. That will be the last one for this session of parliament.

(See Appendix B)

I have a report that I want to be passed this afternoon so that I can read it to the Senate tomorrow.

WEDNESDAY, June 23, 1954.

The Standing Committee on Canadian Trade Relations beg leave to report as follows:—

1. Pursuant to the order of reference dated February 23, 1954, whereby your Committee was authorized to continue to enquire into and report upon the most practical steps toward further implementation of Article 2 of the North Atlantic Treaty, your Committee has heard submissions from ten witnesses representing leading commercial and industrial organizations, as well as economic and trade experts, from other NATO countries.

2. Your Committee is aware of the continuing interest being shown by various groups within this country, as well as without, in achieving a freer trade as contemplated by Article 2 of the North Atlantic Treaty and the general desire, as expressed by leaders in these member countries, that conflict in international economic policies be avoided wherever possible.

3. Your Committee realizes that there are additional groups who wish to be heard and that time has not permitted during the present sitting of Parliament to accommodate all those who wish to appear and present their views. For this reason, it has not been possible to complete the findings and submit a final report.

4. Your Committee therefore expresses the hope that at the earliest possible date during the next session of Parliament your Committee may be authorized to complete its work by hearing the remaining witnesses who wish to appear and the preparation of the final report. It is hoped that from this report may emerge constructive ideas for closer economic collaboration among the members of the North Atlantic Treaty Organization.

All which is respectfully submitted.

A. NEIL McLEAN,
Chairman.

Hon. Mr. TURGEON: I move the adoption of that report.

Hon. Mr. ROBERTSON: I second that motion. But would not the question of employing someone be better left till the committee is reconstituted at the next session?

The CHAIRMAN: That recommendation is nothing new. It is just a copy of a recommendation that was in the last report.

There is just one question Mr. Leigh. I want to ask this: were not your recommendations at the last conference of the Chambers of Commerce of the British Empire held in South Africa referred to all parts of the Empire for study?

Mr. LEIGH: Yes.

The CHAIRMAN: I thought I would mention it because you were too modest to tell us that.

The meeting adjourned.

APPENDIX B

A SUBMISSION ON THE SUBJECT OF TRADE RELATIONS AND ECONOMIC COLLABORATION AMONG NATO COUNTRIES AND OTHER COUNTRIES OF THE FREE WORLD

Presented to the Standing Committee of the Senate on Canadian Trade Relations by the Agricultural Institute of Canada

The Agricultural Institute of Canada appreciates the honour of being given this opportunity to present its views to the Senate Committee on Canadian Trade Relations on the most practical steps to further implementation of Article 2 of the North Atlantic Treaty. The Institute wishes to commend the Senate Committee on its initiative and forethought in providing a forum for discussion of the vital question of economic co-operation among countries of the free world.

The Agricultural Institute of Canada representing the professional agricultural workers in agriculture, industry and commerce in ten provinces respectfully submits to the Standing Committee of the Senate on Canadian Trade Relations the following statement of its views on trade relations and economic collaboration between the NATO countries and with other countries of the free world.

Collaborating among the NATO countries in the political and military spheres has been effectively achieved. A weakness in the foundation of the whole structure is the retarded development of economic co-operation. If we are to build a sound, stable and lasting defence we must be sure that it is set upon a sound economic footing on which multilateral trade over the widest possible area can be developed.

Major obstacles in the way of an expansion of international trade continue to be the financial difficulties confronting many countries. As a large part of the world's wealth, including surplus food and agricultural products, is concentrated in the North American continent problems of distribution and payment have arisen which have been intensified in recent years. There has been a shift of economic strength and production which has been accompanied by a movement of world trade in increasing proportions to North America. The aftermath of war accelerated this changing pattern.

Although the pattern is improving a lack of balance persists between the North American position and that of the rest of the Western World. While it persists trade is blocked by quantitative import and exchange restrictions and currencies remain inconvertible.

The solution is difficult but not impossible if the barriers to trade are not raised and countries pursue monetary and fiscal policies which lead to a balance in trade and payments with the outside world. If the barriers to trade could be dropped, even part way, and appropriate internal policies adopted the possibilities of overcoming present balance of payments difficulties would be great.

To do this however requires action by all countries, debtors and creditors alike. The main element in the solution of these difficulties must be for Canada and the United States to increase the opportunities for trade to the free nations. Foreign countries have placed restrictions on the importation of Canadian and United States goods, not because they do not want them but for the reason that the demand for our goods is greater than their supply of dollars. If the opportunities are provided for overseas countries to earn dollars import restrictions would disappear and the market for North American products would be widened greatly.

This is by no means the whole story. In overseas countries the inflationary conditions generally have made it impossible for them to export in sufficient volume to pay their way. There is today a growing understanding of the relationship between internal inflation and disequilibrium in external payments. With the new understanding there may be a fresh approach to a solution of the exchange difficulties confronting the Western World. The experience of the past few years has helped us to understand that a country with relatively high internal prices coupled with fixed exchange rates is handicapped in selling in a competitive export market. The same high prices attract imports which deplete foreign exchange reserves and create balance of payments difficulties.

Too often in past years there has been a tendency for countries to look outward to find the causes of economic dislocation and the cures for it. A look inward may come closer to finding the roots of the difficulties.

In the conclusion of the Report of the Bank of International Settlements published June 1952 this relevant statement is made, "a number of countries which had succeeded in putting their own houses in order have suddenly found that most of their balance-of-payments difficulties have disappeared as if of their own accord."

THE COMMONWEALTH ECONOMIC CONFERENCE

In December 1952 the Commonwealth Economic Conference issued a communique dealing with measures for increasing the economic strength of the commonwealth countries. The communique stressed the importance of adopting internal economic policies designed to curb inflation and rises in the cost of living. In dealing with corrective internal measures the communique pointed out how inflation caused damage to the external balance by stimulating excessive imports and by diverting to internal use goods which would otherwise be available for export. The Conference agreed that sound economic development should be encouraged and that a multilateral trade and payments system should be extended over the widest possible area.

The communique went on to say that the attainment of the objectives outlined by the Conference would require individual action by commonwealth governments, co-operation among them and international action with other trading nations and existing international organizations. The international agencies and the instruments for economic collaboration to which particular references are made in the communique are the Bank for Reconstruction and Development, the International Monetary Fund and the General Agreement on Tariffs and Trade.

The Agricultural Institute of Canada believes that the Official Communique of the Commonwealth Conference, 1952, setting out as it does the direction which not only commonwealth but all countries must take to improve their fundamental economic strength, is an important basic document which is directly related to the objectives of Article 2 of the North Atlantic Treaty.

THE BALANCING PROCESS

During the last seven years countries of Western Europe have been working under tremendous handicaps, brought about by the devastations of war, to solve their trade difficulties. They have been striving to restore a balance between their spendings and their earnings and at the same time maintain a reasonable standard of living for their citizens. In other parts of the world particularly in the under-developed countries the pressure of growing populations striving for higher standards of living through industrialization has enlarged the area of disequilibrium. The struggle of these people to develop resources has posed important economic problems affecting internal and external equilibrium.

Short run balancing measures to meet some of these difficulties in the early post-war period were provided as outright gifts of food and agricultural products and other essentials through UNRRA and comparable agencies. The European Recovery Program followed. ERP was intended to prime the industrial pump, get the wheels turning again in Western Europe and restore viability.

Another step in the reconstruction program was a number of long term loans at moderate interest rates by the United States and Canada to Western European and other countries.

A fourth step in the balancing process was an attempt to promote a more adequate use of resources by lowering and removing barriers to trade through international collaboration and negotiation.

SUPPORT FOR EXISTING AGENCIES

The Institute believes that in the broad field of international economic relations existing agencies, if given support by member governments, can do much towards making Article 2 of the North Atlantic Treaty a realistic and useful instrument. Such agencies, which now have the benefit of several years of experience and with that experience are increasing their usefulness through economic collaboration, include the Food and Agriculture Organization, the International Monetary Fund and the Bank for Reconstruction and Development. In the field of commercial policy we believe that the General Agreement on Tariffs and Trade has already made an outstanding contribution in co-ordinating and bringing into harmony the trade policies between the countries who are signatories to the North Atlantic Treaty and other countries of the free world.

While we recognize that concentration of military power is necessary for defence we believe that expansion and diversification of trade on the broadest possible scale are necessary for economic strength.

We are opposed to any grouping of countries, even the NATO group, into exclusive or restrictionist trading blocs. We believe that the interests of the NATO countries, both military and economic, can be served best by expanding trade among all countries of the free world as suggested in the Resolution. We are, however, convinced that a great opportunity and a grave responsibility rests with the Atlantic Community of Nations to take the lead in lowering trade barriers and expanding trade.

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

In the view of the Agricultural Institute the countries of the Western World are heading in the right direction. We do not need to strike out on any bold new plan but we do need to support and strengthen existing agencies concerned with economic co-operation. If the existing agencies are not as effective as we would have wished them to be it is not because of inadequate planning.

Rather than contemplate the development of a new institution to improve international trade relations we believe that effort should be directed to the strengthening of the General Agreement on Tariffs and Trade. This instrument provides a sound basis for economic collaboration and for improving trade relations among the nations of the free world. It would be useful, we think, to reiterate some of the principles laid down in this international agreement.

The General Agreement represents a long term effort to restore trade on a multilateral basis with freely convertible currencies as contrasted with bilateral and barter deals and other special trading arrangements of a discriminatory nature. Under a multilateral world trading system commercial

considerations govern the conditions of trade and price is determined on a competitive basis. Under such a system there is a minimum of government subsidization of exports and buyers can import freely without encountering restrictive quotas and licenses.

The General Agreement comprises the international code of law under which the principal trading nations have agreed to conduct their commercial relations. As contracting parties to the Agreement, countries have undertaken serious and important obligations. These obligations have a direct effect on foreign agricultural trade relations.

A basic principle of the General Agreement on Tariffs and Trade is that the customs tariff is recognized as a legitimate form of protection to producers and it is to be the only form of protection against imports. Customs tariffs, however, are subject to reduction and elimination through negotiation and the granting and receiving of compensatory or balancing concessions.

The principle of most-favoured-nation treatment applies whereby, with the exception of existing preferential rates, the most favourable tariff rate granted to any country is generalized and extended to all parties to the General Agreement.

The principle of non-discrimination applies to preferential rates of duty. A ceiling is placed on existing preferences. No new preferences are to be established and no existing preferences may be increased but their reduction can be negotiated in exchange for tariff concessions.

After importers have paid the customs duty the principle of "national treatment" must apply. That means that imports shall not be subject to internal taxes or internal charges of any kind in excess of those applied to like domestic products.

The General Agreement has something to say about export subsidies. The Agreement does not put a ban on the use of production and export subsidies and if a member country feels that its trade is being seriously injured by the export subsidy program of another member the injured member has a right to complain to the Contracting Parties and seek redress.

Subsidies in themselves are not regarded as malicious but if used to acquire more than a fair share of the world market their use can be disrupting to the trade of others.

The Geneva Agreement contains the general obligation that contracting parties shall not use quantitative restrictions to regulate imports or exports. Government measures which restrict by absolute quotas the quantities of commodities which are allowed to be imported into, or exported from a country, are recognized as the most damaging forms of restraint on international commerce. To the extent that they are used, quantitative restrictions defeat the purpose of the Agreement. Contracting parties agree to the general elimination of quantitative restrictions on imports and exports and thereby undertake to support what has been regarded as the most important single principle contained in the Agreement. After setting out the general principle with respect to the elimination of quantitative restrictions, the Agreement then deals with circumstances under which exceptions can be made and lays down definite limitations on the use of restrictions even in these cases.

Within certain limits the General Agreement gives recognition to the operations of state trading enterprises. If the government of a country engages in purchasing and selling commodities in a commercial way, or grants to any enterprise exclusive or special privileges to purchase and sell commodities which involve external trade, such operations are recognized in the General Agreement as state trading.

The Agreement obligations place the state trading member of GATT on a parallel with the private enterprise member with respect to purchases and sales involving imports and exports and with respect to the protection the state enterprise may afford to domestic producers.

The General Agreement is open for membership to all countries which through negotiation reduce their tariffs to levels satisfactory to existing members and are prepared to accept the GATT code of commercial policy.

All of the North Atlantic Treaty Organization countries are contracting parties to the General Agreement and combined contribute over 70 per cent of world trade.

The establishment of the General Agreement on Tariffs and Trade marks the most significant and important development in the field of international trade policy in recent years. This development is significant because the Agreement has now passed through a testing period of over five years of provisional application. It is important because of its wide acceptance, its accomplishments to date and because of the increasing recognition which it is receiving from governments and the public. Thirty-five countries which contribute over 80 per cent of the world trade are contracting parties to the General Agreement. Since its establishment at Geneva in 1947 there have been three rounds of tariff negotiations under the Agreement which involved a reduction or a binding against increase of rates of duty on more than 55,000 tariff items.

In the forum of the Joint Meeting of Contracting Parties to the General Agreement which has to date held eight sessions, the last in Geneva in October 1953, difficult problems in the field of commercial relations have been discussed frankly and in many cases the differences resolved.

It may be thought that the terms of the agreement restrict our freedom to act independently and quickly to protect our home producers against imports. It must be remembered however that by this international agreement our exports are accorded similar treatment and our rights are protected abroad. It is on this balance which is pretty much the application of the golden rule that an international agreement stands or falls.

A PERMANENT TRADE AGREEMENT

This submission from the Agricultural Institute of Canada has been almost entirely devoted to a discussion of the policy phases and implications of the General Agreement on Tariffs and Trade. We have reason for doing so for we believe that the General Agreement overshadows all other developments in international trade in recent years.

Of late the General Agreement has received two major set-backs; first the widespread use of trade restrictions in many parts of the world and secondly the growing signs of protectionism in the United States.

The Institute believes that these difficulties can be overcome if the United States will continue to play the role it has played since the end of the war in promoting a more liberal trading world, and if overseas countries are prepared to adjust their domestic policies to conform to requirements of external stability without resort to restrictions. The General Agreement should then become a more meaningful instrument and provide the basis for more effective co-operation in the field of international trade. What is needed is a better understanding of the Agreement which would lead to its ratification by signatories and give to the General Agreement that degree of permanence which is contemplated in the Resolution.

Ottawa, November 24, 1953.